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Grain and Feed

Annual

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Approved by:

Jonathan Gressel

U.S. Embassy, Kuala Lumpur

Prepared by:

Raymond Hoh

Report Highlights:

The outlook for 2006/07 is bright for wheat with imports expected to grow in response to the increase in demand for instant noodles and biscuits. Crackdowns on farmers using banned beta agonists in pig feed have a significant negative impact on pork consumption. Corn imports are expected to decrease by 5% to 2.6 MMT in 2006/07. In 2006, rice imports could reach 820 TMT in order to offset the drop in domestic production. The upswing in the Malaysian economy is expected to continue into 2008. Wheat imports are expected to chalk up another 6.7% in 2007/08. As consumers' confidence in eating pork returns, corn imports should rebound to 2.7 MMT in 2007/08. As domestic rice output is expected to improve, the country should decrease imports to about 720 TMT in 2007. The best prospect for U.S. grain sales is in the hard-wheat sector.

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Executive Summary

The outlook for 2006/07 is bright for wheat. Imports of wheat are expected to grow in response to the increase in demand for instant noodles and biscuits for the domestic as well as the global market. Recent reports of crackdowns on farmers using banned beta agonists in pig feed have a significant negative impact on pork consumption. Post estimates corn imports to decrease by 5% to 2.6 MMT in 2006/07. In 2006, rice imports could reach 820 TMT in order to offset the drop in domestic production. Vietnam and Thailand being the major rice suppliers to Malaysia.

The upswing in the Malaysian economy is expected to continue into 2008 fueling increased demand for wheat-based products. Wheat imports are expected to chalk another 6.7% in 2007/08. The Health Ministry is in the process on making all the pig farmers sign a pledge not to use the banned drug. Ractopamine is permitted. Post expects consumers' confidence to be restored by the later half of 2007 and corn import should rebound to 2.7 MMT in 2007/08. As domestic rice output is expected to improve, the country should decrease imports to about 720 TMT in 2007.

The best prospect for U.S. grain sales is in the hard-wheat sector. Despite the stiff competition from Canada, U.S. should be able to capture 12-13% of the Malaysian wheat market in 2006/07 and 2007/08. As for corn, U.S. will face strong competition from Argentina and China and will be relegated to a residual supplier. Historically, the U.S. has been an insignificant player in the Malaysian rice market.

Exchange Rate: US\$1.00 = RM3.72 (Feb 23,2006); RM3.499 (Feb 23,2007)

		Production	Imports	Exports	Domestic. Disappearance
			(In 1,000 MT)		
Corn	2005/06	75	2739	8	2760
	2006/07	80	2590	15	2637
	2007/08	83	2700	8	2760
Wheat	2005/06	0	1361	69	1369
	2006/07	0	1500	80	1440
	2007/08	0	1600	90	1500
Rice	2005	1440	675	0	2100
	2006	1400	820	0	2150
	2007	1450	720	0	2220

Corn

(in 1000 Hectares and 1000 MT)

PSD Table									
Country	Malaysia								
Commodity	Corn								
	2005	Revised		2006	Estimate	(1000 HA)	(1000 MT)	(MT/HA)	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007
Area Harvested	25	25	25	25	25	25	0	0	26
Beginning Stocks	261	230	261	293	255	307	323	300	330
Production	75	75	75	80	80	80	0	0	83
MY Imports	2517	2630	2739	2600	2860	2590	0	0	2700
TY Imports	2517	2630	2739	2600	2860	2590	0	0	2700
TY Imp. from U.S.	19	10	17	0	10	70	0	0	75
Total Supply	2853	2935	3075	2973	3195	2977	323	300	3113
MY Exports	10	10	8	0	15	10	0	0	8
TY Exports	10	10	8	0	15	10	0	0	8
Feed Consumption	2400	2530	2610	2500	2730	2480	0	0	2600
FSI Consumption	150	140	150	150	150	157	0	0	160
Total Consumption	2550	2670	2760	2650	2880	2637	0	0	2760
Ending Stocks	293	255	307	323	300	330	0	0	345
Total Distribution	2853	2935	3075	2973	3195	2977	0	0	3113
Yield	3	3	3	3.2	3.2	3.2	0	0	3.192308

Production

Domestic corn production in Malaysia is insignificant.

Consumption

Despite a brief localized outbreak of highly pathogenic avian influenza (AI) in a non-commercial, free-range backyard outside the capital city of Kuala Lumpur on Feb 20 2006 and in a duck farm in the state of Perak on March 16 2006, the Malaysian poultry sector recovered quickly and performed quite well during 2005/06. The Department of Veterinary Services managed to eradicate the diseased birds in a relatively short period. The current ex-farm price for broiler hovers around US\$1.14/kg compared to US\$0.80 in February 2006. The ex-farm price for chicken egg also rose from US\$0.056 in February 2006 to US\$0.063 per unit in February 2007. Most of the big broiler and layer farmers in the market reported

good profits and look to another year of growth in 2006/07. Barring any unforeseen serious AI outbreak, the anticipated strong economic growth for 2007/08 augurs well for the poultry sector. The poultry farmers are set to increase the chicken population in 2007/08.

The pig sector performed extremely well in 2005/06 with ex-farm prices for live pigs reaching record levels. However, reports of the crackdown on farmers using banned beta agonists in pig feed at the end of 2006 has a significant negative impact on pork consumption. Ex-farm prices plunged around US\$167/100kg in February 2006 to US\$103/100kg in February 2007. Approved beta agonists (such as ractopamine) are available but at a higher price. In order to restore consumers' confidence, the Malaysian Health Minister announced that his Ministry is in the process of making all the pig farmers to sign a pledge not to use the banned growth booster. At this point, Post expects domestic corn consumption to drop 4.5% to 26 MMT in 2006/07 but to rebound to 2.76 MMT in 2007/08.

Trade

In line with the drop in domestic consumption, Post expects Malaysian corn imports to decrease by 5% to 2.6 MMT in 2006/07. The 2007/08's prospect is better with an anticipated 4% growth. The two biggest competitors to the U.S. are still Argentina and China. With an anticipated increase in exportable supplies in Argentina, Malaysia will most likely increase buying of South American corn as long as the prices are below the US's. In addition, the Ukraine has emerged as a new source of corn in the Malaysian market. Faced with these challenges, U.S. market share is expected to be around 70 TMT or less than 3% of the total market in 2006/07 and is unlikely to show any significant increase in 2007/08.

Corn Imports

Import Trade Matrix			
Country	Malaysia		
Commodity	Corn		
Time Period	Oct05/Sep06 for 2005, Oct06/Sep07 Not Available	Units:	1000MT
Imports for:	2005		2006
U.S.	17	U.S.	
Others		Others	
Argentina	2177		
China	401		
Ukraine	42		
Thailand	30		
Burma	22		
India	19		
Indonesia	16		
Netherlands	12		
Australia	1		
Total for Others	2720		0
Others not Listed	2		
Grand Total	2739		0

Stocks

With the shift to buying more from South America, feed millers are expected to keep about one and a half month of stocks at the end of 2005/06 in order to adjust to the longer shipping time.

Policy

Production Policy

The GOM has no definite plans to develop a viable domestic field corn industry. Domestic corn production is unlikely to expand significantly in the foreseeable future.

Market Development opportunities

GMO/Biotech Safety Issue: While Malaysia has not officially approved the imports of GM corn, it has not restricted the importation of GM corn. The Malaysian Biosafety Bill was presented in the Parliament for its first reading in December 2007. Clause 61 states that: All living modified organisms, items containing living modified organisms and products of such organisms shall be clearly identified and labeled in a manner to be prescribed and the requirements for such identification and labeling shall be in addition to any other written law.

The interpretation of “products of such organisms” means any product derived from a living modified organism or part of a living modified organism –

- a. if the product contains detectable recombinant deoxyribonucleic acid (DNA); or
- b. where the profile, characteristic or properties of the product is or are no longer equivalent to its conventional counter irrespective of the presence of the recombinant deoxyribonucleic acid (DNA)

The second reading is due in March. If passed, the identification and the labeling requirement could result in causing serious constraints to importing US grains. The Bill will also establish procedures for approving GM products

A significant increase in corn consumption in Malaysia will largely depend on a robust poultry and pig industry. The GOM would likely welcome any assistance from APHIS or an international organization to prevent or deal with any recurrence of the Avian Influenza outbreak. As for the pig sector, the industry has yet to recover fully from the effects of the outbreak of the Nipah virus (Japanese Encephalitis) in 1999. As the farmers and governmental officials have to develop a modern, integrated pig farm system, there are opportunities to link resources in the U.S. to assist in the following areas:

- a. the use of good-quality US swine breeds/semen;
- b. improvement of nutrition for swine; and
- c. transfer of technical knowledge on swine management, swine housing, waste treatment and slaughter plants.

The National Swine Registry has conducted two training courses on artificial insemination and breeding management in the past. These courses were well received and Post would like to see these programs be conducted in other selected locations throughout the country. Buying missions to the U.S. should also be considered in face of growing competition from the European and Canadian counterparts. One such mission (funded by Cochran Fellowship Program) was organized in 2006 and resulted in the first shipment of 52 US breeder pigs from the US since 2001.

Wheat

(in 1000 Hectares and 1000 MT)

PSD Table									
Country	Malaysia								
Commodity	Wheat					(1000 HA)	(1000 MT)	(MT/HA)	
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007
Area Harvested	0	0	0	0	0	0	0	0	0
Beginning Stocks	297	330	297	169	260	220	144	270	200
Production	0	0	0	0	0	0	0	0	0
MY Imports	1216	1540	1361	1350	1720	1500	0	0	1600
TY Imports	1216	1540	1361	1350	1720	1550	0	0	1600
TY Imp. from U.S.	108	90	141	0	130	190	0	0	200
Total Supply	1513	1870	1658	1519	1980	1720	144	270	1800
MY Exports	94	100	69	125	120	80	0	0	90
TY Exports	94	100	69	125	120	80	0	0	90
Feed Consumption	50	30	29	50	50	50	0	0	50
FSI Consumption	1200	1480	1340	1200	1540	1390	0	0	1450
Total Consumption	1250	1510	1369	1250	1590	1440	0	0	1500
Ending Stocks	169	260	220	144	270	200	0	0	210
Total Distribution	1513	1870	1658	1519	1980	1720	0	0	1800
Yield	0	0	0	0	0	0	0	0	0

Production

Wheat is not produced in Malaysia.

Consumption

The Malaysian economy is expected to grow 5 to 6% in 2007. The current high palm oil price and soaring stock market index are contributing to higher purchasing power. Post expects a 5 - 7% growth in wheat consumption for the 2006/07. Cafés and delis are becoming very popular in major cities throughout the country. More health-conscious consumers are also going for high-fiber wholemeal bread. Bakeries are also looking into manufacturing bakery products for distributing to neighboring countries such as Singapore, Thailand, Indonesia and the Philippines. Overseas demand for Malaysian biscuits and cakes recorded strong growth in 2006 with the main markets being Singapore and Indonesia. Exports of packaged instant noodles also recorded a 10% increase with Singapore and U.A.Emirates being the top markets. Millers expect further growth in the manufacturing of instant noodles and biscuits for the domestic as well as the global market during 2006/07.

The Malaysian Government controls the domestic wheat prices by under the Supplies Regulation Act (1974). The retail general-purpose wheat flour price has remained at RM1.20 (US\$0.34) per kilo since 1997. However, the price of wheat flour for industrial uses has increased by RM150 (US\$42.87) to RM1,294 (US\$369.83)/MT since June 1 2005.

Trade

With a better crop in 2005/06, Australia captured 70% of the total Malaysian wheat import market. Despite the strong return of Canadian hard wheat, the US market share rose to 10%. The main purchaser liked the quality of US wheat and had high regard for the efforts of USWA's marketing program. Malaysia also turned to competitively priced wheat from Russia and the Ukraine.

With a good outlook for the noodle/biscuit export market, Post expects a 10% increase in imports in 2006/07. With lesser exportable supply from Australia, US's market share of Malaysian wheat import market is expected to reach 12-13%. Canada should continue to give stiff competition in the hard-wheat sector. The upswing in the Malaysian economy is expected to continue well into 2008 and Malaysia also expects a sharp influx of tourist as the country celebrates 'Visit Malaysia 2007' year. Post expects wheat imports to chalk another 6.7% increase in 2007/08 and U.S. should be able to maintain its market share.

Malaysia exports dropped 18% to about 69 TMT (wheat equivalent) of wheat flour to Singapore, Thailand and Indonesia in 2005/06. Post expects an uptrend in exports in the near term as millers are making extra efforts to export 1kg pack flour to Singapore, the Philippines and Thailand in the coming year.

Wheat Imports

Import Trade Matrix			
Country	Malaysia		
Commodity	Wheat		
Time Period	Jul05/Jun06 for 2005, Jul06/Sep06 for 2006	Units:	1000MT
Imports for:	2005		2006
U.S.	141	U.S.	40
Others		Others	
Australia	967	Australia	349
Canada	186	Canada	34
Russian Fed.	41	China	1
Ukraine	21		
Switzerland	4		
China	1		
Total for Others	1220		384
Others not Listed			
Grand Total	1361		424

Wheat Exports

Export Trade Matrix			
Country	Malaysia		
Commodity	Wheat		
Time Period	Jul05/Jun06 for 2005, Jul06/Sep06 for 2006	Units:	1000MT
Exports for:	2005		2006
U.S.		U.S.	
Others		Others	
Singapore	37	Singapore	9
Thailand	16	Thailand	4
Indonesia	10	Philippines	1
Brunei	3	Brunei	1
Philippines	3		
Total for Others	69		15
Others not Listed			
Grand Total	69		15

Marketing

Market Development Opportunities

GIPSA's program of sending 1 - 2 officers to the ASEAN region for a three-month stint every year since mid-2002 is in the right direction. Millers/importers welcome the opportunity to iron out various dissatisfactions over quality issues. In addition, GIPSA should have a good opportunity to do outreach work. Perceived poor quality image of US grains and beans has to be addressed seriously by USWA and GIPSA.

In normal times, U.S. wheat is less price-competitive than Canadian wheat. Furthermore, the Canadian Board is a one-stop, 'solve all problems' center with the authority to quote prices as well as handle freights and logistics. This system appeals to the Malaysian purchasers. In addition, wheat boards in Canada and Australia can offer price discounts that render US as a residual supplier. The Canadian Wheat Board is putting much effort to produce a variety for the Malaysian noodle sector. USWA has to do some catching up to avoid losing some of its market share. Millers have shown much interest in purchasing Hard White Wheat but, unfortunately, the US's supply is limited.

On-going activities such as regional buyers conventions and training trips to the U.S., conducted by USWA, are well received by the local millers/purchasers. Expanded baking training facilities at FFM (a local miller) offer opportunities for USWA to do outreach activities.

Rice

(in 1000 Hectares and 1000 MT)

PSD Table									
Country	Malaysia								
Commodity	Rice, Milled								
	2005	Revised		2006	Estimate	(1000 HA)	(1000 MT)	(MT/HA)	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007
Area Harvested	660	660	660	650	650	645	0	0	660
Beginning Stocks	315	340	315	406	350	330	551	360	400
Milled Production	1440	1440	1440	1420	1420	1400	0	0	1450
Rough Production	2215	2215	2215	2185	2185	2154	0	0	2231
Milling Rate (.9999)	6500	6500	6500	6500	6500	6500	0	0	6500
MY Imports	850	670	675	850	750	820	0	0	720
TY Imports	850	750	675	850	780	820	0	0	720
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	2605	2450	2430	2676	2520	2550	551	360	2570
MY Exports	0	0	0	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0	0	0	0
Total Consumption	2199	2100	2100	2125	2160	2150	0	0	2220
Ending Stocks	406	350	330	551	360	400	0	0	350
Total Distribution	2605	2450	2430	2676	2520	2550	0	0	2570
Yield (Rough)	3.356061	3.356061	3.356061	3.361538	3.361538	3.339535	0	0	3.380303

Production

Preliminary estimates indicate a 2.8 percent drop in milled rice production to 1.4 MMT in 2006. Abnormal heavy rainfall in the northern part of the Peninsula delayed planting and affected some newly planted area. A decrease in harvested area due a localized adverse weather conditions as well as a slight drop in padi yields had a negative impact on output.

The outlook for 2007 is more optimistic with planted and harvested area returning to normal level of 660,000 hectares. Weather conditions have been favorable to date. Post forecast rice production at 1.45 MMT for 2007. For the longer term, the GOM is encouraging large-scale private sector commercial padi production, especially in the states of Sabah and Sarawak, where land is still abundant.

Consumption

Domestic consumption increased by 2.3% to 2.15 MMT in 2006. This amount includes unofficial rice imports from neighboring Thailand. Malaysia is about 65% self-sufficient. Post expects consumption to increase by about 3% in 2007 as Malaysia expects a sharp influx of tourist as the country celebrates 'Visit Malaysia' year. While rice consumption per capita shows a slight increase from 80.4 kg in 2005 to 80.7 kg in 2006, the figure does not account for the influx of foreign workers and tourists into the country. In reality, the domestic consumption per capita has been on the slide vis-à-vis the consumption of wheat.

The retail price of standard grade rice is fixed at RM1 (US\$0.28) per kg. The Malaysian Rice Distributors Association has petitioned the GOM to increase the retail price by 5% but the latter has not entertained the request.

Trade

Imports of 675 TMT in the trade matrix include unofficial rice imports of 99 TMT from neighboring Thailand in 2005. Thailand and Vietnam were the top suppliers followed by Pakistan, Burma and India. Rice sales from U.S. amounted to only 79 MT, mainly Calrose rice consumed by Japanese and Korean expatriates.

In 2006, rice imports (including unofficial imports) could reach 820 TMT with Vietnam and Thailand being the major suppliers. (Official preliminary imports recorded at 778 TMT for Jan-Nov 2006). As domestic rice output is expected to improve and as BERNAS (the country's sole rice importer) works down its rice stockpile, the country is expected to decrease imports to about 720 TMT in 2007.

Rice Imports

Import Trade Matrix			
Country	Malaysia		
Commodity	Rice, Milled		
Time Period	Jan-Dec for CY05, Jan-Sep for CY06	Units:	1000MT
Imports for:	2005		2006
U.S.		U.S.	
Others		Others	
Thailand	370	Vietnam	371
Vietnam	254	Thailand	263
Pakistan	28	Pakistan	26
Burma	12	Burma	7
India	10	India	6
Cambodia	1		
Total for Others	675		673
Others not Listed			
Grand Total	675		673

Policy

Production Policy

Under the Ninth Malaysia Plan (2006 –2010), the GOM adopted a policy goal to increase the current 65% self-sufficiency to 90% in rice production by 2010. Given the lack of land available for production and the current cultivation practices, the goal does not appear to be realistic. One small hope towards achieving the target is the introduction of new hybrid species. One such specie is the 'Siraj' a crossbreed between an Indian Basmati and a Japanese padi specie. Claiming to be capable of producing four times more than current padi species, it is a breed to be monitored over the next few years.

The support price for padi rice has increased from RM55.00 to RM65 per 100 kg in 2005. In addition, all rice farmers receive a subsidy of RM25 per 100 kg of padi delivered to a licensed mill or drying facility.

Marketing

Rice imports from the United States are mainly Calrose rice consumed by Japanese and Korean expatriates. Contributing factors to the U.S. absence from the market include lower prices from neighboring suppliers; the desire to enhance regional relationships and cheaper freight & shorter shipping times for competitors' rice. While the opportunities for sales of U.S. rice in Malaysia are still very limited, the absence of a price ceiling on imported high grade rice may help to create a small niche market for imports of branded, packaged rice, especially for the organic food sector in the United States.